



AUDITOR - GENERAL  
SOUTH AFRICA

Auditing to build public confidence

## Report of the auditor-general to the North West provincial legislature and the council on the Mamusa Local Municipality

### Report on the audit of the financial statements

#### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Mamusa Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for disclaimer of opinion

##### Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets included in property, plant and equipment as the asset register does not agree to the financial statements and infrastructure asset register does not contain crucial descriptive information in order to distinguish between other assets which are similar in nature. I was unable to confirm these infrastructure assets by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence for land and buildings included in property, plant and equipment as the municipality did not have adequate internal controls to maintain records of properties owned. I was unable to confirm these land and buildings by alternative means. Consequently, I was unable to determine whether any adjustments relating to property plant and equipment of R419 871 592 (2018: R433 391 121) as disclosed in note 4 and depreciation and amortization of R24 006 731 (2018: R31 921 518) as disclosed in note 32 to the financial statements were necessary.

##### Investment property

4. The municipality did not recognise all property held to earn rental or for capital appreciation as investment property in accordance with GRAP 16, *Investment property*. Properties were incorrectly classified as property, plant and equipment. Consequently, investment property was understated and property, plant and equipment was overstated by R19 734 366 (2018: R19 904 555).

### Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the municipality did not have adequate systems to maintain records to support financial information. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from exchange transactions of R3 301 331 (2018: R3 935 879) as disclosed in note 8 to the financial statements was necessary.

### VAT receivable and VAT payable

6. I was unable to obtain sufficient appropriate audit evidence for the VAT receivable and payable balances as the municipality did not maintain accurate and complete records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments to the VAT receivable of R8 907 611 (2018: R5 752 177) or the VAT payable of R8 929 886 (2018: R4 212 964) as disclosed in note 10 and 17 respectively to the financial statements were necessary.

### Consumer debtors

7. I was unable to obtain sufficient appropriate audit evidence for the consumer debtors as the municipality did not maintain an adequate system of internal controls to account for consumer debtors. In addition, the municipality did not base the assessment of impairment on objective evidence as required by GRAP 104, *Financial instruments*, but followed an overall approach when assessing consumer debtors for impairment. It was impracticable to determine the resultant misstatement to the provision for impairment. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment to consumer debtors of R64 908 921 (2018: R54 458 829) as disclosed in note 11 to the financial statements was necessary.

### Employee benefit obligation

8. The municipality did not correctly calculate the employee benefit obligations in accordance with GRAP 25, *Employee benefits* as some of the assumptions and underlying data used did not reflect the best estimates of the ultimate cost of providing post-employment benefits. The long service award was understated due to the incorrect annual salaries used in the calculation and the post retirement medical benefit was overstated due to the incorrect application of the assumption that the continuation of the post-employment health care subsidy would be at 100% of active employees, or their surviving dependents. I was however unable to quantify the full extent of these misstatements of the employee benefit obligation as it was impracticable to do so.

### Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the poor status of the accounting records. I could not confirm the trade payables by alternative means. In addition, payables from exchange transactions was overstated by R8 186 076 due to differences between the payables age analysis and the supplier statements. Consequently, I was unable to determine whether any further adjustment to payables from exchange transactions of R142 056 975 (2018: R121 564 381) as disclosed in note 16 to the financial statements was necessary.

### Unspent conditional grants and receipts

10. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and receipts as the municipality did not maintain accurate and complete records and did not establish internal control disciplines to monitor projects on a regular basis. I was unable to confirm these unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment relating to unspent conditional grants and receipts of

R2 347 648 (2018: R3 899 999) as disclosed in note 14 to the financial statements was necessary.

### Revenue from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges due to the state of the accounting records of the municipality. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any adjustment relating to service charges of R47 627 972 (2018: R52 128 226) as disclosed in note 21 to the financial statements was necessary.
12. I was unable to obtain sufficient appropriate audit evidence that revenue, expenditure and the receivables relating to the provision of retail water services have been correctly accounted for by the municipality as the service delivery agreement entered into between the Dr Ruth Segomotsi Mompati District Municipality as water service authority and the municipality as water service provider had expired. In terms of section 22 of the Water Services Act, 1997 (Act No. 108 of 1997), no person may operate as a water service provider without the approval of the water service authority. I was unable to confirm, by alternative means, that the local municipality was authorised to operate as the water service provider. Consequently, I was unable to determine whether any adjustments relating to revenue from sale of water of R9 449 807 included in the service charges as disclosed in note 21 to the financial statements or any other related receivable and expenditure relating to the provision of retail water services by the municipality, were necessary.

### Revenue from non-exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for property rates as the municipality did not maintain an accurate and updated valuation roll. I was unable to confirm the property rates by alternative means. Consequently, I was unable to determine whether any adjustment relating to property rates of R14 301 483 (2018: R11 755 667) as disclosed in note 20 to the financial statements was necessary.
14. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies as the municipality did not maintain accurate and complete accounting records. I was unable to confirm the government grants by alternative means. Consequently, I was unable to determine whether any adjustment to government grants of R76 983 353 as disclosed in note 23 to the financial statement was necessary.

### Expenditure

15. I was unable to obtain sufficient appropriate audit evidence for contracted services and general expenses as the municipality did not maintain accurate and complete records. I was unable to confirm these expenditures by alternative means. The municipality did not have adequate systems to account for contracted services and general expense transactions in the appropriate accounting periods resulting in contracted services being overstated by R8 468 616 and general expenses being overstated by R3 561 288. In addition, the municipality did not have adequate systems to account for repairs and maintenance that should be capitalised to property, plant and equipment resulting in repairs and maintenance being overstated and property plant and equipment understated by R2 063 315. Consequently, I was unable to determine whether any further adjustments to contracted services of R12 132 413 and general expenses of R20 679 433 as disclosed in note 36 and 26 to the financial statements were necessary.
16. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for inventory losses/write-downs. As described in note 42 and 43 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any

adjustment to the corresponding figure for inventories losses/write-downs of R49 708 515 as presented in the statement of financial performance was necessary.

### Unauthorised expenditure

17. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance for unauthorised expenditure, as the supporting documentation for the restatement was not provided. In addition, I was unable to obtain sufficient appropriate audit evidence whether all unauthorised expenditure for the current year was disclosed as the municipality was not able to provide sufficient appropriate audit evidence to substantiate that the asset additions were appropriately budgeted for. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether the any adjustment to the unauthorised expenditure of R242 392 416 (2018: R239 971 175) as disclosed in note 46 to the financial statements was necessary.

### Irregular expenditure

18. Section 125 of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence to confirm that awards of R1 058 603 (2018: R11 249 109) were made in terms of the supply chain management requirements. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure of R167 532 369 (2018: R152 918 038) as disclosed in note 48 to the financial statements was necessary.

### Contingent liabilities

19. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities as the municipality did not maintain accurate and complete records and a system of recording to disclose all contingent liabilities. I was unable to confirm that all contingent liabilities were correctly disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to contingent liabilities as disclosed in note 40 to the financial statements was necessary.

### Commitments

20. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustment relating to the commitments of R6 685 755 (2018: R18 773 688) as disclosed in note 39 to the financial statements was necessary.

### Related parties

21. Contrary to the requirements of GRAP 20, *Related party disclosures*, management did not disclose key information relating to all senior management remuneration, the total balance owed by councillors and the applicable provision for doubtful debts on these accounts. In addition, note 41 incorrectly indicated that the municipality does not have related parties. I have not included the omitted information in this auditor's report as it was impracticable to do so.

### Prior period error

22. The municipality did not disclose all corrections as a result of prior period errors in the notes to the financial statements as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the prior year errors disclosures. I was unable to confirm the prior period errors by alternative

means. Consequently, I was unable to determine whether any further adjustment relating to the prior period errors disclosure in notes 42 and 43 to the financial statements was necessary.

### **Material uncertainty relating to going concern**

23. I draw attention to the matter below. My opinion is not modified in respect of this matter.
24. As disclosed in note 45 to the financial statements, the municipality is experiencing cash flow challenges as a result of the low debtor's collection rate which has impacted on the municipality's ability to pay creditors. The municipality's current liabilities exceed its current assets by R86 606 680 and made a loss of R20 871 450 in the current year. These matters are an indication that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Emphasis of matters**

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Fruitless and wasteful expenditure**

26. As disclosed in note 47 to the financial statements, fruitless and wasteful expenditure of R7 269 018 was incurred in the current year and fruitless and wasteful expenditure of R26 843 441 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

### **Distribution losses**

27. As disclosed in note 51 and 52 to the financial statements, material electricity distribution losses of R7 782 284 (2018: R 19 285 002) was incurred, which represents 54% (2018: 46%) of total electricity purchased. This mainly arises from, inter alia, illegal connections to the electricity network and bridging of meters by consumers.

### **Other matter**

28. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

29. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **Responsibilities of the accounting officer for the financial statements**

30. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
31. In preparing the financial statements, the accounting officer is responsible for assessing the Mamusa Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

32. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
33. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants*, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) and the ethical requirements that are relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

## Report on the audit of the annual performance report

### Introduction and scope

34. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
35. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priority	Pages in the annual performance report
KPA 2 – Service delivery and infrastructure development	x – x

36. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

### KPA 2 – Service delivery and infrastructure development

#### Various objectives not consistent

37. The objectives approved in the service delivery and budget implementation plan (SDBIP) were not reported in the annual performance report for the objectives as listed below.
- To improve accessibility and mobility and control and direct the flow of storm-water and prevent road erosion
  - To repair the current fence of the graves
  - % reduction of energy efficiency
  - To provide basic municipal services
  - To maintain existing infrastructure
  - To effectively do revenue collection to ensure sound financial matters
  - To promote road safety
  - To fight poverty and to build, clean, healthy, safe and sustainable communities
  - To provide quality basic services and infrastructure



- To ensure good governance financial viability and optimal institutional transformation
- The upgrading of the traffic centre
- Conducting library awareness
- Maintenance of sports facilities

### Various indicators not consistent

38. Indicators and targets approved in the SDBIP were not reported in the annual performance report for the indicators as listed below:

- Percentage of high mast light Mamusa LM complaints resolved
- Electricity losses eliminated
- Percentage of low voltage Mamusa LM complaints resolved
- Water losses reduced
- The percentage of households with access to basic level of sanitation
- Km of main / outfall sewers cleaned
- The percentage of households with access to basic level of electricity
- Number of electricity backlogs eliminated - Rural Settlements

### Various indicators not well defined

39. The planned targets for these indicators were not specific in clearly identifying the nature and required level of performance and not measurable as listed below:

Indicator description	Planned target
Number of energy use reduced in various buildings, high-mast and street lights	No of energy use reduced in various buildings, high masts and street lights by June 2019
Electricity losses eliminated	Eliminating electricity losses (town) from _% to _% by June 2019
Percentage of low voltage Mamusa LM complaints resolved	Resolving at least 95% of all low voltage Mamusa LM complaints in the Mamusa LM licensed area (telephonic, written and verbal) received by June 2019
Water losses reduced	Reducing water losses from 35% to 23% by June 2019
The percentage of households with access to basic level of sanitation	100% of Households with access to basic level of sanitation by June 2019
Km of main / outfall sewers cleaned	Cleaning _20_ km of main / outfall sewers as per program in the Mamusa LM municipal area by June 2019
The percentage of households with access to basic level of electricity	99% of Households with access to basic level of electricity by June 2019
Nr. of electricity backlogs eliminated - Rural Settlements	Number electricity backlogs to be eliminated according to Eskom plan by June 2019 (Jurisdiction of Eskom)

### Various indicators not verifiable

40. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the following indicators. This was due to a lack of technical indicator descriptions, formal standard operating procedures or documented system descriptions to validate the existence of systems

and processes that enable reliable reporting of actual service delivery against these indicators and a lack of underlying records support the reported achievement. I was unable to validate the existence of systems and processes and confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements reported in the annual performance report for the indicators as listed below:

Indicator reported	Reported achievement
The percentage of households with access to basic level of water	70% of households with access to basic level of water
Percentage of medium voltage forced interruptions Mamusa LM complaints resolved	100% at least all medium voltage forced interruptions in the Mamusa LM licensed area were resolved
Percentage of street lights Mamusa LM complaints resolved	50% at least all street lights Mamusa LM complaints in Mamusa LM Licensed area (telephonic, written and verbal) received were resolved.
R value income collected from electricity sales	R15 369 606.76
R value income collected from pre-paid electricity sales	R8 268 458.41
R value income collected from water sales	R2 147 909.56

### Various indicators

41. A comparison between the performance of the year under review and previous year was not sufficiently disclosed in the annual performance report for the indicators as listed below:

- Number of energy use reduced in various buildings, high masts and street lights
- The percentage of households with access to basic level of water
- Percentage of medium voltage forced interruptions Mamusa LM complaints resolved
- Percentage of street lights Mamusa LM complaints resolved
- R value income collected from electricity sales
- R value income collected from pre-paid electricity sales
- R value income collected from water sales
- Number of (K78) multi road blocks
- Number of households with access to basic level of solid waste removal
- Number of cleaned illegal dumping sites
- Number of community cemeteries maintained
- Number of traffic fines issued
- Number of library programmes conducted
- Number of sports facilities maintained
- The percentage of households with access to basic level of sanitation
- The percentage of households with access to basic level of electricity

### Various indicators not reliable

42. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable



to determine whether any adjustments were required to the achievements reported in the annual performance report of the indicators as listed below:

Indicator description	Reported achievement
Km of paved road in Ipelegeng Ext 8 access roads	Only the box cuts or earthworks were done which amounts to 50% of the total works
Km of paved road in Ipelegeng roads5	1.8km of paving of Ipelegeng roads and storm water completed.
Fencing of graveyards in Molatswaneng / Amalia	1.6km of fence installed at Amalia/Molatswaneng
Number of (K78) multi road blocks	9 Conducted (K78( Multi road blocks with all law enforcement agencies in the Co Municipal area
Number of households with access to basic level of solid waste removal	20286 household with access to basic level of refuse removal
Number of cleaned illegal dumping sites	28 illegal dumping sites cleaned
Number of community cemeteries maintained	9 cemeteries maintained
Number of traffic fines issued	1647 traffic fines issued
Number of sports facilities maintained	3 Sports Facilities maintained

## Other matters

43. I draw attention to the matters below.

### Achievement of planned targets

44. Refer to the annual performance report on pages 37 to 42 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs xx to xx of this report.

## Report on audit of compliance with legislation

### Introduction and scope

45. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

46. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements, performance and annual report

47. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were

subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of audit opinion.

48. The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
49. Late submission of the annual financial statements to the Auditor-General for auditing was not appropriately addressed by the mayor and municipal council, as required by section 133(1) of the MFMA.
50. The annual performance report for the year under review did not include a comparison of the performance with set targets and comparison with the previous financial year and/or measures taken to improve performance, as required by section 46 (1)(b) and (c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).
51. The 2017-18 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
52. The 2017-18 annual report was not published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.
53. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.
54. The oversight report adopted by the council on the 2017-18 annual report was not made public, as required by section 129(3) of the MFMA.

### **Expenditure management**

55. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
56. Sufficient appropriate audit evidence could not be obtained that all payments from the municipality's bank account were approved by the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
57. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
58. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance to supply chain management regulations.
59. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph.
60. Effective steps were not taken to prevent fruitless and wasteful expenditure of R7 269 018 as disclosed in note 47 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on overdue supplier accounts.'

### **Strategic planning and performance management**

61. A mid-year performance assessment was not performed as required by section 72(1)(a)(ii) of the MFMA.
62. A performance management system was not adopted as required by section 38(a) of the MSA and regulation 8 of the Municipal planning and performance management regulations.

### Revenue management

63. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

### Asset management

64. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
65. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

### Human resources management

66. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

### Utilisation of grants

67. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant (MIG) was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DORA.
68. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 125(5) of the DORA.

### Liability management

69. An effective system of internal control for liabilities including a liability register was not in place, as required by section 63(2)(c) of the MFMA.

### Consequence management

70. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) & (b) of the MFMA.

### Procurement and contract management

71. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the municipality did maintain adequate records. Similar limitation was also reported in the prior year when related documents were destroyed in a fire.
72. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM regulation 17(a) and (c).
73. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
74. Sufficient appropriate audit evidence could not be obtained that bid specifications unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
75. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

76. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
77. Sufficient appropriate audit evidence could not be obtained to confirm that contracts were awarded through a competitive bidding process that was adjudicated by the bid adjudication committee, as required by SCM regulation 29(1).
78. Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulation 29(2).
79. Sufficient appropriate audit evidence could not be obtained to confirm that contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
80. Sufficient appropriate audit evidence could not be obtained to confirm that councillors did not participate in the committees evaluating or approving tenders as required by the contravention section 117 of the MFMA.
81. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
82. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.
83. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
84. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act Preferential Procurement Regulations.
85. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
86. Bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by regulation 8(2) of the 2017 preferential procurement regulations.
87. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation 8(5).
88. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by regulation 8(5) of the 2017 preferential procurement regulations.
89. Contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
90. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
91. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
92. Sufficient appropriate audit evidence could not be obtained to confirm that awards were not made to providers who were in the service of other state institutions or whose

directors/principal shareholders were in the service of other state institutions, as required by section 112(j) of the MFMA and SCM regulation 44.

### Internal control deficiencies

93. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- There is a general lack of effective leadership based on a culture of honesty and ethical business practices and good governance. There were no corrective monitoring mechanisms developed such as the implementation of an action plan to address prior year audit findings.
- The municipality does not have an adequate system to ensure the safekeeping of documentation that supports the financial statements and the annual performance report. In addition, there is an over-reliance on consultants to prepare financial statements for the purpose of compliance.
- The municipality does not have an adequate compliance monitoring system in place to prevent, detect and correct non-compliance which resulted in various non-compliance findings.
- Management did not implement proper risk management activities to identify risks and shortfalls in the municipality's financial systems, in supply chain management, performance reporting as well as non-compliances with laws and regulations.

Auditor - General

Rustenburg

24 February 2020



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*